

Zeroing in on Goodwill

Goodwill is a term that might cause a little confusion for some. But at its heart, it is a relatively straight-forward concept. Goodwill is generally viewed as a term that encapsulates everything from a business's reputation to the goods, services and products it provides. The key idea is that there is goodwill if the business is viewed as a true and functioning business that has longevity in the marketplace.

The Importance of Reputation

It is important to point out that many of the aspects that go into defining goodwill are not easily noted on a balance sheet. One of those elements has already been mentioned in the form of reputation. A good reputation is an intangible asset that is hard to put an exact dollar amount on. Imagine that you had a choice between two businesses that were almost identical. However, one business enjoyed a strong reputation while the other had a reputation for poor customer service and goods and services. This decision would be an easy one for most prospective buyers.



Going Beyond the Numbers

When a buyer pays more than the recognized value of a business, goodwill usually plays a major role. There are many variables that can be included into goodwill such as quality and track record of management; strength of the local economy; the loyalty of the customer base; good relationships with suppliers; copyrights; trademarks and patents; name or brand recognition; specialized training and knowhow. The list goes on. Business brokers and M&A advisors will be sure to highlight these goodwill factors to prospective buyers. Factors that impact the longevity of a business, and its long-term potential, should not be overlooked.

The Evolving Meaning of Goodwill

In recent years, the accounting profession has changed how it deals with the concept of goodwill and how it is factored into decisions. Since the rise of the Industrial Revolution, many large companies were built around the ownership and use of heavy equipment and machinery; however, in the last two decades there has been a shift away from tangible assets and towards intangible assets.

Assets under the umbrella of intellectual property, including patents, trademarks, brand names and more, are now considered key aspects of goodwill. In short, in the last twenty-years, goodwill has taken on a more complex and varied meaning. Today, businesses are not necessarily based around massive factors and huge assembly lines. Workers and management in

the world's largest companies 50 years ago would be hard pressed to explain the inner workings of some of today's corporate juggernauts.

Goodwill is more complicated than ever before. This factor serves to underscore the value, and importance, of working with an experienced, capable and proven business broker or M&A advisors. The goodwill elements within a business need to be highlighted so that prospective buyers fully understand the business' real value.

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